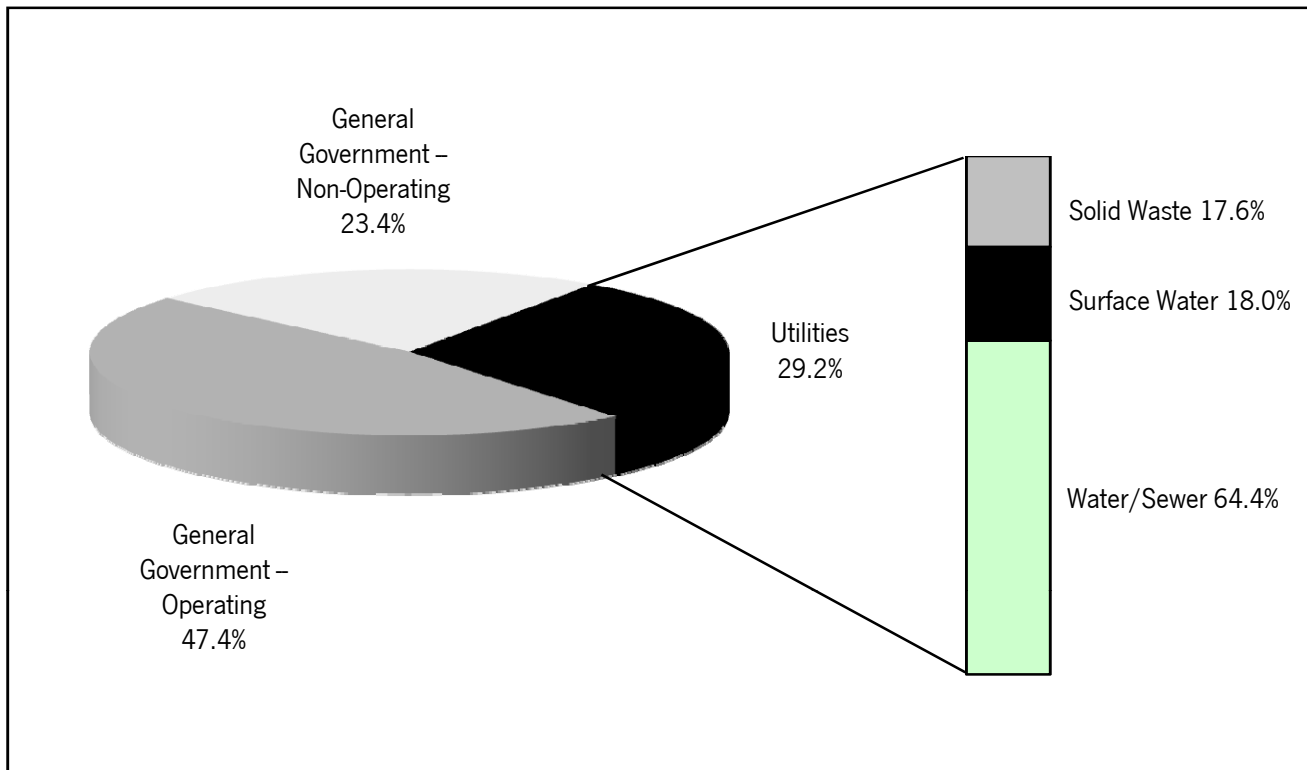


CITY OF KIRKLAND
2009-2010 BUDGET
\$366,418,627

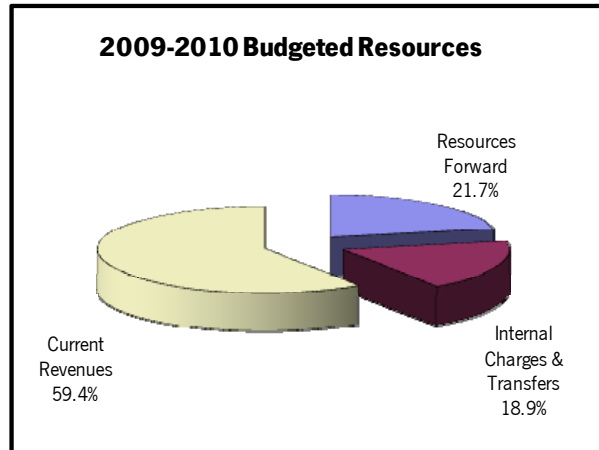


The City Budget is composed of General Government functions and the City's three Utilities which are operated as separate enterprises. Both the General Government and Utilities budgets have operating and non-operating components. The operating portion of the budget represents services to the public and support services within the organization. Non-operating budgets account for debt service, capital projects and reserves.



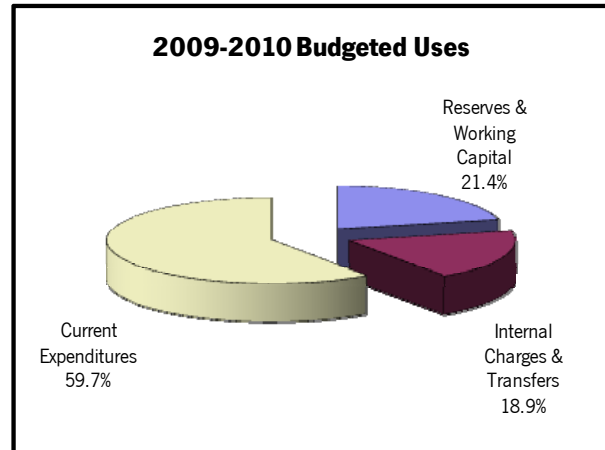
TOTAL RESOURCES AND USES

Where the Money Comes From



Total Budgeted Resources	\$366,418,627
Less Resources Forward (Cash)	(79,671,226)
Less Internal Charges/Transfers	<u>(69,052,419)</u>
Current Revenues	<u>\$217,694,982</u>

Where the Money Goes



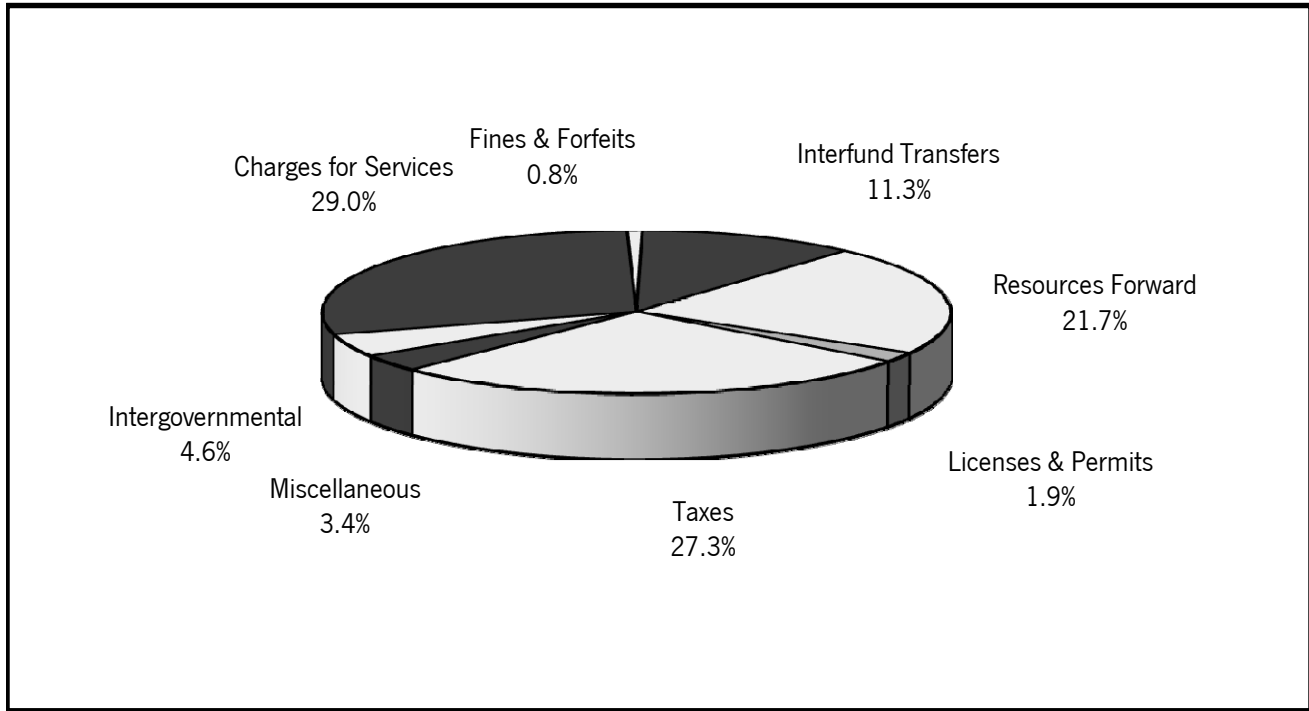
Total Budgeted Uses	\$366,418,627
Less Reserves & Working Capital	(78,589,271)
Less Internal Charges/Transfers	<u>(69,052,419)</u>
Current Expenditures	<u>\$218,776,937</u>

The total budget of \$366.4 million encompasses all resources and uses, including reserves, unreserved working capital, and internal transactions involving payments or transfers from one fund to another. Including these transactions in the budget provides a full accounting of the activities in each fund. However, they also have the effect of "grossing up" the total budget.

Current revenues reflect what the City expects to receive from external sources. Across all functions, about \$217.7 million is projected to be received during the next biennium, which is equivalent to the City's biennial income.

Current expenditures correspond to what the City plans to actually spend in terms of payments to employees, vendors, outside agencies, and other governments. About \$218.8 million is projected to be spent during the next biennium citywide. The \$1.1 million difference (current expenditures in excess of current revenues) represents the planned expenditure of accumulated cash resources for one-time purchases and capital projects.

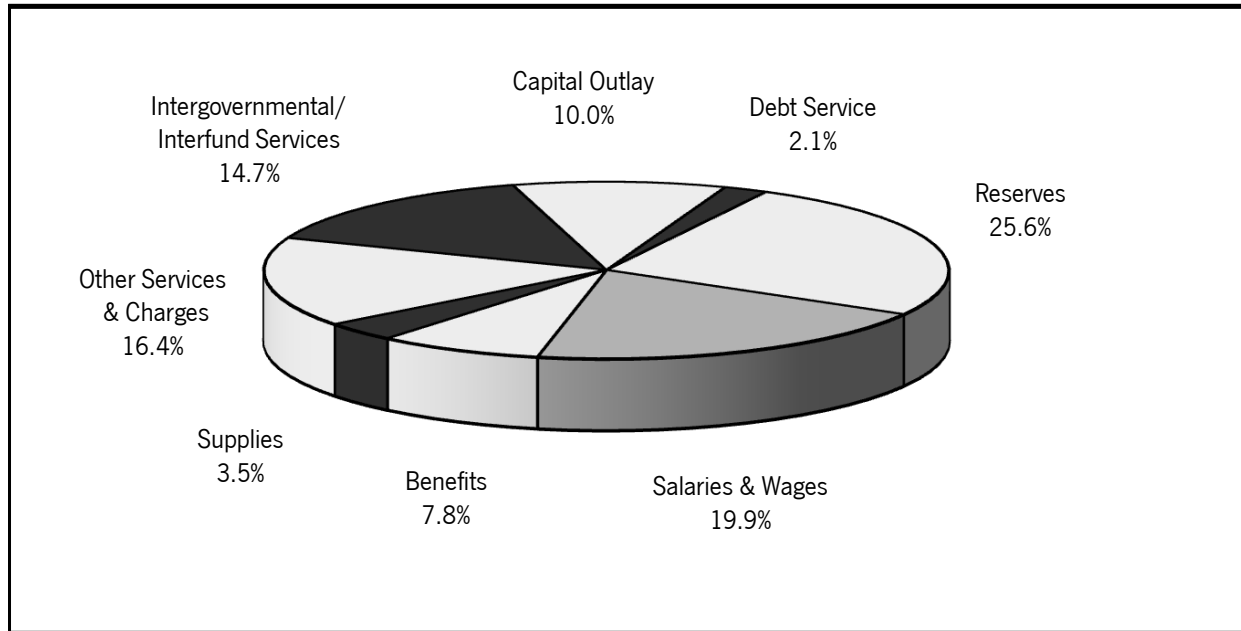
CITY OF KIRKLAND
TOTAL BUDGET
2009-2010 REVENUE SUMMARY: BY REVENUE TYPE



Analysis of Change

Revenue Sources	2005-06 Actual	2007-08 Budget	2009-10 Budget	Percent Change
Taxes	90,274,685	91,558,780	100,084,283	9.31%
Licenses and Permits	7,688,701	7,495,420	7,144,272	-4.68%
Intergovernmental	13,727,323	22,098,377	16,736,321	-24.26%
Charges for Services	81,753,439	92,725,345	106,191,347	14.52%
Fines and Forfeits	2,250,731	2,449,860	2,867,000	17.03%
Miscellaneous	14,828,471	14,757,716	12,409,936	-15.91%
Interfund Transfers	33,807,616	39,788,286	41,314,242	3.84%
Resources Forward	84,299,709	96,460,828	79,671,226	-17.41%
Total	328,630,675	367,334,612	366,418,627	-0.25%

CITY OF KIRKLAND
TOTAL BUDGET
2009-2010 EXPENDITURE SUMMARY: BY CATEGORY



Analysis of Change

Category	2005-2006 Actual*	2007-2008 Budget	2009-2010 Budget	Percent Change
Salaries & Wages	60,778,654	73,563,149	72,860,394	-0.96%
Benefits	18,716,502	26,011,199	28,503,935	9.58%
Supplies	10,942,125	12,387,456	12,892,196	4.07%
Other Services & Charges	51,680,316	63,343,943	60,070,545	-5.17%
Intergovernmental/Interfund Services	47,786,846	51,056,830	53,808,469	5.39%
Capital Outlay	29,204,888	62,983,378	36,791,289	-41.59%
Debt Service	9,018,982	10,621,717	7,629,969	-28.17%
Reserves	0	67,366,940	93,861,830	39.33%
Category Total	228,128,313	367,334,612	366,418,627	-0.25%

*2005-2006 actual does not include reserves.

CITY OF KIRKLAND

2009-2010 BUDGET OVERVIEW: BY FUND TYPE/FUND

General Government Operating Funds

Fund	2007-2008 Budget	2009-2010 Budget	Percent Change
<i>General Fund</i>			
010 General	115,746,835	124,687,343	7.72%
<i>Special Revenue Funds</i>			
112 Lodging Tax	561,841	794,424	41.40%
117 Street Operating	9,684,531	9,087,068	-6.17%
122 Cemetery Operating	336,709	199,498	-40.75%
125 Parks Maintenance	2,144,266	2,203,287	2.75%
126 Recreation Revolving	2,111,338	2,825,090	33.81%
Total Special Revenue Funds	14,838,685	15,109,367	1.82%
<i>Internal Service Funds</i>			
521 Equipment Rental	12,367,189	13,971,736	12.97%
522 Information Technology	10,744,314	10,111,156	-5.89%
527 Facilities Maintenance	9,069,324	9,804,443	8.11%
Total Internal Service Funds	32,180,827	33,887,335	5.30%
Total General Government Operating Funds	162,766,347	173,684,045	6.71%

General Government Non-Operating Funds

Fund	2007-2008 Budget	2009-2010 Budget	Percent Change
<i>Special Revenue Funds</i>			
152 Contingency	2,940,790	2,324,515	-20.96%
154 Cemetery Improvement	549,500	598,528	8.92%
156 Impact Fees	3,709,937	7,165,555	93.14%
157 Park & Municipal Reserve	12,804,743	10,050,552	-21.51%
158 Off-Street Parking Reserve	69,564	217,610	212.82%
159 Tour Dock	99,235	122,675	23.62%
170 Street Improvement	3,222,265	2,613,576	-18.89%
188 Grant Control Fund	285,835	216,458	-24.27%
190 Excise Tax Capital Improvement	22,091,056	24,039,092	8.82%
Total Special Revenue Funds	45,772,925	47,348,561	3.44%

CITY OF KIRKLAND

2009-2010 BUDGET OVERVIEW: BY FUND TYPE/FUND

General Government Non-Operating Funds (Continued)

Fund	2007-2008 Budget	2009-2010 Budget	Percent Change
<i>Debt Service Funds</i>			
210 LTGO Debt Service	4,966,356	2,735,723	-44.91%
220 UTGO Debt Service	3,243,334	2,703,581	-16.64%
230 LID Control	9,647	0	-100.00%
Total Debt Service Funds	8,219,337	5,439,304	-33.82%
<i>Capital Projects Funds</i>			
310 General Capital Projects	33,908,550	26,142,349	-22.90%
320 Grant Capital Projects	16,279,729	5,307,113	-67.40%
Total Capital Projects Funds	50,188,279	31,449,462	-37.34%
<i>Trust Funds</i>			
620 Firefighter's Pension	1,382,725	1,635,961	18.31%
Total Trust Funds	1,382,725	1,635,961	18.31%
Total General Government Non-Op Funds	105,563,266	85,873,288	-18.65%

Water/Sewer Utility Funds

Fund	2007-2008 Budget	2009-2010 Budget	Percent Change
<i>Operating Fund</i>			
411 Water/Sewer Operating	38,471,870	46,479,043	20.81%
Total Operating Fund	38,471,870	46,479,043	20.81%
<i>Non-Operating Funds</i>			
412 Water/Sewer Debt Service	3,758,988	3,510,123	-6.62%
413 Utility Capital Projects	17,305,570	18,837,106	8.85%
Total Non-Operating Funds	21,064,558	22,347,229	6.09%
Total Water/Sewer Utility Funds	59,536,428	68,826,272	15.60%

CITY OF KIRKLAND

2009-2010 BUDGET OVERVIEW: BY FUND TYPE/FUND

Surface Water Utility Funds

Fund	2007-2008 Budget	2009-2010 Budget	Percent Change
<i>Operating Fund</i>			
421 Surface Water Management	12,094,573	12,515,606	3.48%
Total Operating Fund	12,094,573	12,515,606	3.48%
<i>Non-Operating Fund</i>			
423 Surface Water Capital Projects	10,140,676	6,765,553	-33.28%
Total Non-Operating Funds	10,140,676	6,765,553	-33.28%
Total Surface Water Utility Funds	22,235,249	19,281,159	-13.29%

Solid Waste Utility Fund

Fund	2007-2008 Budget	2009-2010 Budget	Percent Change
<i>Operating Fund</i>			
431 Solid Waste Utility	17,233,322	18,753,863	8.82%
Total Operating Fund	17,233,322	18,753,863	8.82%
Total Solid Waste Utility Fund	17,233,322	18,753,863	8.82%

TOTAL ALL FUNDS	367,334,612	366,418,627	-0.25%
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REVENUE

A guide to major revenue sources and trends



REVENUE SOURCES

TAXES

SALES TAX

Sales tax is the City's primary source of funding for general City services. It is the single largest revenue source in the General Fund. In addition, sales tax is a dedicated funding source for transportation-related capital projects (\$540,000), and technology capital projects (\$350,000) during the biennium, and prior to 2009 neighborhood capital improvement projects (\$200,000), which are on a hiatus for 2009-10.

Sales tax is levied on the sale of consumer goods (except most food products and services) and construction. In Kirkland, retail businesses are the largest generator of sales tax, followed by contracting, wholesale, and service businesses. The amount of revenue generated by sales tax fluctuates from year to year due to changes in the economy, buying habits of consumers, and the level of construction taking place in the City.

The general sales tax rate within the City of Kirkland is 9.0 percent. Of the 9.0 percent, one percent (less 0.15 percent that goes to King County) is returned to the City of Kirkland, and the remainder is distributed to the State and other public agencies.

In 1995, the State Legislature granted King County the authority to impose an additional 0.5 percent sales tax (effective 1/1/96) on food and beverages sold by restaurants, taverns, and bars (bringing the current total sales tax rate for these establishments to 9.5 percent). This additional tax revenue is distributed to a Baseball Stadium Fund to pay the debt service on a professional baseball stadium.

As of July 1, 2003, an additional 0.3 percent sales tax was imposed by the state legislature on vehicle sales and leases to fund transportation improvements. The distribution of the sales tax is as follows:

Jurisdiction	Rate (%)*
State of Washington	6.50
King County/METRO	1.00
King County Criminal Justice Levy	0.10
City of Kirkland (1.0 with .15 remitted to King County)	
City Portion	0.85
County Portion	0.15
Regional Transit Authority	<u>0.40</u>
Total General Sales Tax Rate	9.00
Additional 0.3% for automobile sales/leases (to fund transportation)	
Total Sales Tax Rate for Automobile Sales and Leases Only	9.30
Additional 0.5% Food and Beverage Tax (for Baseball Stadium Fund)	
Total Sales Tax Rate for Restaurant Food and Beverages Only	9.50

*0.5 percent voter approved increase effective April 1, 2009, to fund Regional Transit Authority projects.

As of April 1, 2007, an additional 0.1 percent sales tax approved by voters for transit services was added to the rate for King County/METRO.

As of April 1, 2008, an additional 0.1 percent sales tax was added to fund new or expanded mental health and substance abuse treatment services for King County/METRO bringing the total General Sales Tax rate to 9.0 percent. These additional 0.2 percent do not affect Kirkland's share of the sales tax.

Budget

2007-2008: \$33,215,781
(\$31,675,781 General Fund,
\$540,000 Street Improvement Fund
and \$1,000,000 General Capital
Projects Fund)

2009-2010: \$29,105,218
(\$28,215,218 General Fund,
\$540,000 Street Improvement Fund
and \$350,000 General Capital Projects
Fund)

Trends and Assumptions

Methodology

- The City's fiscal policy is to budget in the coming year an amount equivalent to the total actual sales tax revenue collected in the prior year. 2008 revenue was 9.0 percent lower than 2007. The budget reflects this downturn and the following anticipated impacts on sales tax revenue: the loss of \$500,000 in anticipation of a major auto dealer moving its sales office in the latter half of 2009; and a \$330,000 reduction to reflect the impact of Costco opening new stores. Additionally, the transfer of operating costs from the capital budget is reflected in the reallocation of \$250,000 in 2009 and \$200,000 in 2010 to the General Fund.

Trends

- Annual sales tax change for the past six years:

2003	12.94%
2004	0.25%
2005	12.64%
2006	14.80%
2007	0.6%
2008	-9.00%
- 2008 revenue decreased 9.00 percent compared to 2007 primarily due to a decline in development activity and automotive/gas and general merchandise/miscellaneous retail sectors sales in the latter part of the year.

Key Assumptions

- City sales tax rate of 0.85 percent (one percent less 0.15 percent remitted to King County).
- 2009 budgeted sales tax is based on 2008 receipts and 2010 budgeted sales tax is based on 2009 budgeted receipts plus 2 percent growth, with additional adjustments to recognize the impacts of the sales tax losses due to business decisions by major businesses.

KING COUNTY CRIMINAL JUSTICE LEVY

Under the authority granted by the State and approved by the voters, King County levies an additional 0.1 percent sales tax to support criminal

justice programs. The State collects this optional tax and retains 1.5 percent for administration. Of the amount remaining, 10 percent is distributed to the county and 90 percent is distributed to cities. This revenue must be used exclusively for criminal justice purposes and cannot replace existing funds designated for these purposes.

Budget

2007-2008: \$2,164,253 (General Fund)

2009-2010: \$2,236,140 (General Fund)

Trends and Assumptions

Methodology

- Distributed on the basis of population.

Trends

- 2007 revenue experienced significant growth compared to 2006 (up 11.8 percent).
- 2008 revenue decreased 1.7 percent compared to 2007.

Key Assumptions

- King County levy rate of 0.1 percent.
- 2009-2010 budget is based on the retail sales tax trends with 2009 being similar to 2008 and 2010 assumes a 2 percent increase over 2009.

PROPERTY TAX

In Kirkland, property taxes fund services in the General, Street Operating, and Parks Maintenance Funds. The Parks Maintenance Fund was created in 2003 as a result of a levy lid lift approved by voters in November 2002 to fund maintenance and operations for new parks. Property taxes are the third largest source of revenue in the General Fund, the largest source of revenue in the Street Operating Fund, and the primary source of revenue in the Parks Maintenance Fund. All real and personal property (except where exempt by law) is assessed by the King County Assessor at 100 percent of the property's fair market value. Assessed values are adjusted each year based on market value changes.

Although property taxes represent a major source of funding for City services, the portion of each property

owner's total tax bill allocated to the City is relatively small. In 2009, the total property tax rate in Kirkland is \$7.83 per \$1,000 of assessed valuation. Of that total, about 14.5 percent, or \$1.14 per \$1,000 assessed valuation, goes to the City. This includes the levy lid lift for parks maintenance. State statute limits the annual increase in the regular property tax levy to the lesser of one percent or the Implicit Price Deflator.

The City can exceed the limitation with the approval of voters or by using levy capacity from prior years that was "banked" for future specified purposes. The City used \$0.91 million in banked capacity for the 2006 levy and about \$0.16 million in 2007 to fund additional public safety staffing. The City used all of the remaining \$0.10 million in banked levy capacity for the 2009 levy.

The City is also provided an allowance for new construction, which entitles the City to the property tax revenue generated by newly constructed businesses and homes. The new construction levy does not increase the overall tax rate paid by property owners. The City's total rate cannot be more than \$3.10 per \$1,000 of assessed valuation.

The annual tax impact on a property owner is usually different than the percent increase of the levy, since it depends on several factors such as changes in the assessed valuation of the property, growth in the City's overall assessed valuation, and levy increases by other taxing districts. The property tax rate is determined by dividing the levy amount by the assessed valuation per \$1,000.

Budget (Regular Levy/Voter-approved debt)

2007-2008: \$27,964,943
 (\$17,827,796 General Fund,
 \$5,687,326 Street Operating Fund,
 \$1,531,306 Parks Maintenance Fund
 and \$2,918,515 voter-approved UTGO
 Debt Service Fund)

2009-2010: \$29,152,156
 (\$18,810,872 General Fund,
 \$6,336,659 Street Operating Fund,
 \$1,625,863 Parks Maintenance Fund
 and \$2,378,762 voter-approved UTGO
 Debt Service Fund)

Trends and Assumptions

Methodology

- Based on prior year's levy plus new construction and any additional levy increase up to one percent.

Trends

- New construction as a percentage of each year's total base regular levy has ranged between 1% and 4% over the last eight years.
- The 2009 new construction levy of \$227,224 is 1.75% of the total base regular levy for 2009.

Key Assumptions

- 2.0 percent growth in new construction in 2009 and 2010.
- One percent optional levy increase in 2009 and 2010.
- Use of \$108,436 banked capacity to fund services impacted by the losses in other General Fund revenues.

UTILITY TAXES

Utility taxes are levied on the gross operating revenues that public and private utilities earn from operations within the boundaries of the City. This applies to electric, natural gas, water, sewer, surface water, solid waste, telephone, and cable TV utilities. Legislation passed in 1982 limits the tax rate on electric, gas, steam, and telephone utilities to six percent. The Cable Communication Policy Act of 1984 states that cable tax rates should not be higher than tax rates on other utilities. Currently, a six percent tax rate applies to both residential and commercial customers of these utilities. The 2009-2010 adopted budget assumes a voter approved tax rate increase of 1.5 percent in 2010 for these utilities. There are no restrictions on the tax rates for water, sewer, surface water, and solid waste utilities.

Currently, a 10.5 percent tax rate applies to both residential and commercial customers of water, sewer, and solid waste utilities. Surface water customers continue to pay a 7.5 percent utility tax.

Budget

2007-2008: \$18,854,813
(\$17,269,813 General Fund and
\$1,585,000 Facilities Maintenance
Fund)

2009-2010: \$26,007,851 General Fund

Trends and Assumptions

Methodology

- Based on historical trends with greater emphasis on the current year's receipts.

Trends

- 2008 revenues are expected to increase 7.5 percent compared to 2007.
- Taxes from all utilities except gas and surface water increased between 2007 and 2008.
- Increased utility rates have contributed to the increase in revenue between 2007 and 2008.

Key Assumptions

- For 2009, 6.0 percent tax rate on telephone, natural gas, electricity, and cable utilities; 7.5 percent tax rate on surface water utility; and 10.5 percent tax rate on water, sewer, and solid waste utilities.
- For 2010, 7.5 percent tax rate on telephone, natural gas, electricity, and cable utilities assuming voter approval of the proposed tax increase on private utilities. 10.5 percent tax rate on water, sewer, and garbage utilities. The tax rate on surface water will remain at 7.5 percent.
- 2009-2010 budget is based on 2008 estimated revenue plus assumptions for expected rate changes on each utility.

ADMISSIONS TAX

All cities may levy an admissions tax in an amount no greater than five percent of the admissions charge. This tax can be levied on admission charges to

theaters, dance halls, private clubs, observation towers, stadiums (public elementary and secondary schools are exempt), swimming pools, golf courses, amusement parks, rides, and any other activity where an admission charge is collected at the door. The admissions tax also applies to season tickets, cover charges, and rental of facilities and equipment for recreational purposes.

Budget

2007-2008: \$233,000 (Facilities Maintenance Fund)

2009-2010: \$275,000 (General Fund)

Trends and Assumptions

Methodology

- Based on historical trends with greater emphasis on the current year's receipts.

Trends

- 2008 revenue increased 7.0 percent compared to 2007.

Key Assumptions

- 2009-2010 budget is based on 2008 estimated revenue with moderate growth in 2009 and minimal growth in 2010.
- The amount generated by the Kirkland Performance Center is rebated back to that organization as an operating subsidy.

GAMBLING TAX

Gambling tax revenues are primarily used for gambling enforcement purposes. The maximum tax rates allowed by RCW 9.46.113 are five percent for bingo and raffles, two percent for amusement games, and five percent for punchboards and pulltabs. The City Council amended the Kirkland Municipal Code (KMC) to prohibit card rooms beginning in 1999.

Budget

2007-2008: \$534,000 (General Fund)

2009-2010: \$524,800 (General Fund)

Trends and Assumptions

Methodology

- Based on historical trends with greater emphasis on the current year's receipts.

Trends

- 2008 revenue decreased 4.8 percent compared to 2007 revenue.
- Trends are based on the number of gambling establishments and volume, which fluctuate from year to year.

Key Assumptions

- Current establishments will continue to operate.
- 2009-2010 budget is based on 2008 estimated revenue with moderate decline for 2009-2010.

REAL ESTATE EXCISE TAX (REET)

The Real Estate Excise Tax is levied on all sales of real estate, measured by the full selling price, including the amount of any liens, mortgages, and other debts given to secure the purchase. The State levies this tax at the rate of 1.28 percent. Cities are also authorized to impose a local tax of 0.50 percent. The first 0.25 percent tax must be used primarily for local capital improvements identified under the capital facilities plan element of the City's Comprehensive Plan. The second 0.25 percent, which is optional, must be used to fund transportation capital projects according to City ordinance.

Budget

2007-2008: \$5,600,000 (Excise Tax Capital Improvement Fund)
2009-2010: \$6,457,000 (Excise Tax Capital Improvement Fund)

Trends and Assumptions

Methodology

- Real estate excise tax collections are primarily a function of the real estate market and mortgage rates.

Trends

- 2008 revenue decreased 54 percent compared to 2007, but 2007-2008 was 75 percent higher than budget.

Key Assumptions

- Real Estate Excise Tax of 0.5 percent.

- Current allocation:

REET 1 -

Parks \$2,152,500
Transportation \$1,076,000

REET 2 -

Transportation \$3,228,500

LODGING EXCISE TAX

On the recommendation of the Lodging Tax Advisory Committee, a lodging excise tax was approved by the City Council in 2001. The rate is one percent and became effective January 1, 2002. The tax applies to most short-term accommodations, such as hotels and motels. This revenue is limited to funding tourism promotion and the operation of tourism-related facilities.

Budget

2007-2008: \$362,659 (Lodging Tax Fund)
2009-2010: \$500,000 (Lodging Tax Fund)

Trends and Assumptions

Methodology

- Based on current year receipts, factoring in new hotels.

Trends

- 2008 revenue increased 13.2 percent compared to 2007.

Key Assumptions

- New hotel opened in early 2007.

LICENSES AND PERMITS

BUILDING RELATED PERMITS

This category consists of revenue collected by the Building Division and the Public Works Department. Included in this category are building permits, plumbing permits, clear/grade permits, side-sewer permits, mechanical permits, electrical permits, and sign permits. Fees imposed for permits are subject to a base charge determined by the type of permit, plus additional fees determined by either the dollar value or size (square foot or number of units) of the project.

Budget

2007-2008: \$4,241,886 (General Fund)

2009-2010: \$3,359,200 (General Fund)

Trends and Assumptions

Methodology

- Based on historical trends, the number of permits pending in the planning process, and the Building Division's projections of upcoming construction projects.

Trends

- 2008 revenue decreased 25 percent compared to 2007 because of the general decline in construction-related activity.

Key Assumptions

- 2009 budget is based on 2008 estimated revenue less a 16.0 percent reduction to account for an expected decline in construction project activity and only slight growth in 2010.

BUSINESS LICENSES AND PERMITS

This category includes the issuance of business licenses and licenses for certain activities such as cabaret (live music/dancing), massage parlors, pawnbrokers or devices such as cigarette machines and amusement devices. The fee structure for business permits is typically an annual fee or one-time charge depending on the particular type of license or permit.

In 2003, the City instituted a new business license fee program with two components – a base fee of \$100 per business plus a surcharge based on number of employees. The base fee is considered a license revenue and the surcharge is considered a “revenue generating regulatory license” or tax for accounting purposes. This program also required businesses with no physical presence in Kirkland that are doing business in the city (e.g. contractors) to obtain a business license.

The 2009-2010 budget is based on a new business license fee structure that continues the \$100 base fee for annual renewals and an annual charge of \$100 per full time equivalent (FTE) for all employees of non-exempt businesses in Kirkland. This program

also requires businesses with no physical presence in Kirkland that are doing business in the city (e.g. contractors) to obtain a business license. The base fee is considered a license revenue and the per FTE charge is considered a “revenue generating regulatory license” or tax for accounting purposes.

Budget

Business Licenses and Permits

2007-2008: \$851,305 (General Fund)

2009-2010: \$877,055 (General Fund)

Revenue Generating Regulatory License Fee

2007-2008: \$1,926,671 (General Fund)

2009-2010: \$5,363,038 (General Fund)

Trends and Assumptions

Methodology

- Based on current year receipts.

Trends

- This revenue source is not expected to fluctuate significantly after the initial increase caused by the change in fee structure.
- 2008 revenue increased 2.7 percent compared to 2007.

Key Assumptions

- Existing businesses are stable.
- 2009-2010 budget is based on the revised fee structure with growth of 2.0 percent projected in 2010 over 2009.

FRANCHISE FEES

Franchise fees, which were first collected in 1995, are charges levied on private utilities for the right to use city streets, alleys and other public properties. Charges on light, natural gas, and telephone utilities are limited to the actual administrative expenses incurred by the City. Cable TV franchise fees are governed by federal rather than state law and may be levied at a rate of five percent of gross revenues, regardless of the cost of managing the franchise process. Franchise fees are also collected from the Northshore Utility District (NUD) in lieu of utility taxes. The new NUD franchise agreement that will go into effect in 2009 is expected to increase fee revenue by 5.5 percent over 2008 and thereafter will increase by

the June-to-June Seattle-Tacoma-Bremerton Area Consumer Price Index (CPI-U).

Budget

2007-2008: \$2,016,610 (General Fund)

2009-2010: \$2,506,137 (General Fund)

Trends and Assumptions

Methodology

- Based on historical trends and rate increases approved at the time estimates are prepared.

Trends

- 2008 revenue increased 6.3 percent compared to 2007.

Key Assumptions

- 2009-2010 budget is based on 2008 estimated revenue with 13.2 percent growth in 2009 and 3.2 percent growth in 2010 to reflect changes in new franchise agreements.
- The Federal Communications Commission ruled in 2002 that cable companies do not have to pay franchise fees on cable modem services.

INTERGOVERNMENTAL

EMERGENCY MEDICAL SERVICES LEVY (EMS)

This is a voter approved levy that is collected by King County and distributed to cities based on a formula. A six-year levy was approved by voters in November 2007.

Budget

2007-2008: \$1,297,399 (General Fund)

2009-2010: \$1,703,169 (General Fund)

Trends and Assumptions

Methodology

- Distribution is based on a formula that considers the number of calls for service, total assessed valuation, and the consumer price index (CPI-U).

Trends

- The revised formula yields a significant increase to revenues and will better match cost changes.

Key Assumptions

- Estimate provided by King County.

LIQUOR BOARD PROFITS AND EXCISE TAX

In Washington State, liquor sales are controlled by a State-operated monopoly. Cities and towns receive 40 percent of the profits generated by the Washington State Liquor Control Board and 28 percent of the liquor excise tax receipts. The purpose of allocating these funds back to the cities is to help defray the costs for the policing of liquor establishments located within the city limits. Cities are required to appropriate at least two percent of these revenues to support approved alcohol and drug addiction programs.

Budget

2007-2008: \$1,100,404 (General Fund)

2009-2010: \$1,206,910 (General Fund)

Trends and Assumptions

Methodology

- Estimate based on forecast provided by Association of Washington Cities.

Trends

- 2008 revenue decreased 1.1 percent compared to 2007.

Key Assumptions

- Estimated per capita amount of \$7.35 in 2009 and 2010 from liquor board profits.
- Estimated per capita amount of \$5.04 in 2009 and 2010 from liquor tax.

MOTOR VEHICLE FUEL TAX ("GAS TAX")

In Washington State, cities receive a portion of the State-collected gasoline tax. The State distributes 10.6961 percent of the base amount of 23 cents to cities (less some small deductions). Beginning July 1, 2003, the state fuel tax increased to 28 cents per gallon from 23 cents as part of the "Nickel Funding

Transportation Package” enacted by the state legislature. In the 2005 session, the Legislature approved a transportation bill that includes a 9.5 cent gas tax increase phased in from 2005 to 2008. Cities got a small portion of this additional gas tax (0.25 cents in 2005 and 0.25 cents in 2006 but no portion of the increases in 2007 or 2008).

In the past, a set portion of this revenue had to be deposited in a Street Fund for the construction, improvement, chip sealing, seal-coating, and repair of arterial highways and city streets. This restriction ended with the passage of new legislation. The City has chosen to follow the previous restriction by policy to fund arterial street fund projects.

Budget

2007-2008: \$2,353,206
 (\$1,317,206 Street Operating Fund and
 \$1,036,000 Street Improvement Fund)
 2009-2010: \$2,146,260
 (\$1,201,368 Street Operating Fund and
 \$1,079,000 Street Improvement Fund)

Trends and Assumptions

Methodology

- Estimate based on forecast provided by Association of Washington Cities. Gas tax is imposed as a fixed amount per gallon of gas purchased (i.e. fluctuations in the price of gas will effect gas tax revenues only if consumption changes).

Trends

- This revenue base is decreasing as consumer gas consumption declines in response to higher gas prices.

Key Assumptions

- Estimated per capita amount of \$23.41 in 2009 and 2010.

FIRE DISTRICT #41

These are fees collected from King County Fire District #41 for fire protection and emergency medical services provided by the Kirkland Fire Department to the district.

Budget

2007-2008: \$6,781,843
 (\$6,671,738 General Fund, and
 \$110,105 General Capital Projects
 Fund)
 2009-2010: \$7,576,475
 (\$7,476,005 General Fund and
 \$100,470 General Capital Projects
 Fund)

Trends and Assumptions

Methodology

- A pro rata share (based on the Fire District's assessed valuation as a percentage of total City and District assessed valuation) of the City's fire services budget, net of other fire revenues such as the EMS levy.

Trends

- Typically, an increase in the fire services budget results in an increase in the service contract. This revenue source is also affected by the relative change in the City's assessed valuation compared to the Fire District's. However, the valuation proportion has remained relatively consistent over the last 3 years.

Key Assumptions

- Pro rata share distribution assumes the 2009 assessed valuations for the City and District.

CHARGES FOR SERVICES

UTILITIES

The City operates three separate utilities, which are managed like a business with customer charges fully supporting all costs. Revenue is collected for water/sewer services, surface water management, and garbage and recycling services.

Budget

2007-2008: \$57,965,964
 (\$31,688,970 Water/Sewer
 Operating Fund,
 \$10,343,039 Surface Water
 Management Fund
 and \$15,933,955 Solid Waste Fund)

2009-2010: \$65,286,948
(\$37,928,200 Water/Sewer
Operating Fund,
\$10,392,000 Surface Water
Management Fund
and \$16,966,748 Solid Waste Fund)

Trends and Assumptions

Methodology

- Annual rate changes are needed to acknowledge the general cost of operations, any new debt obligations and “pass-through” increases from other agencies.

Trends

- 2008 water/sewer revenue increased 4.4 percent compared to 2007 primarily due to a rate increase.
- 2008 surface water fee revenue increased 3.6 percent compared to 2007.
- 2008 solid waste collection fee revenue increased 8.4 percent compared to 2007 due to higher disposal costs paid to King County.

Key Assumptions

- Water rate increases include 6.0 percent increase in 2009 and 6.0 percent increase in 2010 primarily due to increased water purchase costs and infrastructure re-investment.
- Sewer rate increases include 8.04 percent increase in 2009 and 2.99 percent increase in 2010 primarily due to higher disposal costs paid to King County and infrastructure re-investment.
- No increase in surface water fees.
- Solid waste rate increases include 1.7 percent increase in 2009 due to increased disposal contract costs and other program changes. No rate increase is proposed for 2010, pending decision from King County on 2010 disposal rates.

PLANNING FEES AND PLAN CHECK FEES

These fees are collected for development-related services involving the issuance of permits and the

review of plans for compliance with the City’s codes. Fees are generally collected at a level estimated to recover the cost of the service provided. This category also includes expedited plan review fees in 2007-2008. Expedited plan review will be discontinued at the end of 2008.

Budget

2007-2008: \$4,022,297 (General Fund)
2009-2010: \$2,244,963 (General Fund)

Trends and Assumptions

Methodology

- Based on historical trends, the number of development plans pending in the planning process, and the Building Division’s projections of upcoming construction projects.

Trends

- 2008 revenues decreased 18.4 percent compared to 2007.
- Approximately \$43,400 of revenue was received in 2008 from the expedited plan review program.

Key Assumptions

- Across all planning-related fees, the 2009-2010 budget assumes a 44.2 percent reduction to account for an expected decline in construction project activity in 2009 and slight growth in 2010.
- Expedited plan review is discontinued at the end of 2008.

ENGINEERING DEVELOPMENT FEES

These fees are collected from developers for the inspection of public improvements associated with private developments under construction.

Budget

2007-2008: \$1,000,000 (General Fund)
2009-2010: \$1,000,000 (General Fund)

Trends and Assumptions

Methodology

- Based on estimates from Public Works staff regarding upcoming development.

Trends

- 2008 revenue decreased 11.2 percent compared to 2007.

Key Assumptions

- Fee is based on 8.0 percent of the value of developer installed improvements.
- 2009-2010 budget is based on 2008 estimated revenue with no growth projected in 2009 or 2010.

TRANSPORTATION AND PARKS IMPACT FEES

The City began collecting impact fees for transportation in June 1999 and for parks in August 1999. As authorized under the Growth Management Act, the City charges impact fees to applicants of new development or for a change in use to pay for the cost of new public facilities that provide future capacity needed to accommodate new growth and development. The fees cannot pay for existing deficiencies in level of service for the public facilities or normal maintenance and repairs. The fee charged to each development is based on a proportionate share of the new facilities. The fee structure was revised in 2008.

Budget

2007-2008: \$1,350,000 (Impact Fees Fund)
2009-2010: \$4,750,318 (Impact Fees Fund)

Trends and Assumptions

Methodology

- Based on estimates from Development Services staff regarding upcoming development and the current fee structure.

Trends

- 2008 revenue increased 22.3 percent compared to 2007 due primarily to an increase in rates despite a decrease in construction activity.

Key Assumptions

- Transportation impact fee for 2009 will increase by the transportation inflation index of 11 percent as calculated by Public Works staff.

- Parks impact fee for 2009 will increase by 6.19 percent, the June-to-June Seattle-Tacoma-Bremerton Area Consumer Price Index (CPI-W) in June 2008.

INTERFUND CHARGES

ENGINEERING CHARGES

These fees are collected in the General Fund from other City funds for in-house engineering services provided on a variety of projects (including major capital projects).

Budget

2007-2008: \$2,168,000 (General Fund)
2009-2010: \$2,679,941 (General Fund)

Trends and Assumptions

Methodology

- Projected capital improvement project (CIP) engineering charges are based on the prior year's actual labor distribution, the number of projected capital improvement projects, and the current year's budgeted engineering costs.
- Projected Non-CIP engineering charges are based on the prior year's actual labor distribution and the current year's budgeted engineering costs.
- Actual charges are assessed quarterly using current wage and benefit rates, a fully loaded cost factor, and actual hours spent on a project.

Trends

- Changes in both the CIP and the Non-CIP engineering charges result from the change in the nature of work performed from year to year.
- CIP engineering charges will increase because Public Works is adding staff that will be fully charged to the CIP.
- 2008 CIP engineering charges increased 4.5 percent compared to 2007.
- 2008 Non-CIP engineering charges increased 10.4 percent compared to 2007.

Key Assumptions

- Based on Public Works engineering estimates.
- Fully staffed (no vacancies).

ACCOUNTING SERVICES

These are charges paid by the Solid Waste and Water/Sewer Operating Funds for billing services provided by the General Fund.

Budget

2007-2008: \$1,052,100 (General Fund)

2009-2010: \$1,197,275 (General Fund)

Trends and Assumptions

Methodology

- 2009-2010 charges are based on the 2008 basic budget for the Customer Accounts section of the Finance and Administration Department.

Trends

- 2008 revenue increased 4.5 percent compared to 2007.
- 2009-2010 revenue will increase 13.8 percent compared to 2007-2008 primarily due to the 1.0 FTE Customer Accounts Associate added in 2007.

Key Assumptions

- Not applicable

CITYWIDE OVERHEAD

These internal charges are collected from other City funds for centrally provided services including human resources, general administration, legal, payroll, purchasing, budget, and accounts payable.

Budget

2007-2008: \$3,407,945 (General Fund)

2009-2010: \$4,069,450 (General Fund)

Trends and Assumptions

Methodology

- 2009 charges are based on the 2008 basic budget for these central services and include an inflationary factor applied for 2010.

Trends

- 2008 General Fund revenue increased 5.0 percent compared to 2007 due to an inflationary factor applied to 2007 for 2008.
- 2009-2010 revenue will increase 19.4 percent compared to 2007-2008.

Key Assumptions

- Multimedia Services moved from the General Fund to the Information Technology Fund as of 2006.

FINES AND FORFEITS

The City of Kirkland and the State of Washington share revenue that is collected from fines, forfeitures, fees, costs, and penalties associated with the enforcement of ordinances and statutes. The type of statute violated determines the percentage of each payment that is retained by the City.

Budget

2007-2008: \$2,449,860 (General Fund)

2009-2010: \$2,867,000 (General Fund)

Trends and Assumptions

Methodology

- Based on the number of cases filed with the court and their disposition.

Trends

- 2008 revenue increased 3.9 percent compared to 2007.
- 2009-2010 revenue is expected to increase 17.0 percent compared to 2007-2008 because of the reinstatement of the Driving While License Suspended (DWLS) law and anticipated full staffing of the Police department.

Key Assumptions

- Police enforcement remains the same.

MISCELLANEOUS REVENUE

INVESTMENT INCOME

In the City of Kirkland, available cash (called Treasurer's Cash) is invested for the benefit of the General Fund. The amount of interest received will vary with interest rates and the amount of cash available for investments during any particular budget year. After satisfying the interest income obligations to the utility funds and for the debt service and capital project commitments made by the Council, the remaining interest income is allocated to other City funds according to average cash balance.

Budget

2007-2008: \$7,649,692 (All Operating and Non-Operating Funds)

2009-2010: \$5,775,800 (All Operating and Non-Operating Funds)

Trends and Assumptions

Methodology

- Interest earnings are estimated based on the current portfolio and expected interest rate trends.

Trends

- Interest rates are expected to decrease significantly, which will decrease interest revenue income.

Key Assumptions

- A significant decrease in interest rates is expected between 2008 and 2009 and no additional increase in 2010.
- Declining interest rates due to economic conditions in 2009-2010 will result in significantly lower earnings on fund balances invested over the upcoming biennium.

RESOURCES FORWARD

Resources Forward represents the beginning fund balance and is comprised of the following: capital reserve, operating reserve, and working capital. A capital reserve is dedicated for the replacement of vehicles and computers and for funding major capital improvement projects. An operating reserve is an

appropriated contingency account set aside for unanticipated expenditures. Working capital consists of excess net operating resources brought forward from the prior year to fund one-time "service packages" and equipment costs and to provide an operating cash flow buffer against seasonal fluctuations in revenues and expenditures. At the end of each year, it is the City's practice to transfer net resources in excess of designated working capital from the General Fund to one or more of the City's reserve funds.

Budget

2007-2008: \$96,460,828 (All Operating and Non-Operating Funds)

2009-2010: \$79,671,226 (All Operating and Non-Operating Funds)

Trends and Assumptions

Methodology

- Amount budgeted must cover one-time service packages approved in the budget, any designated working capital, and operating or capital reserves.

Trends

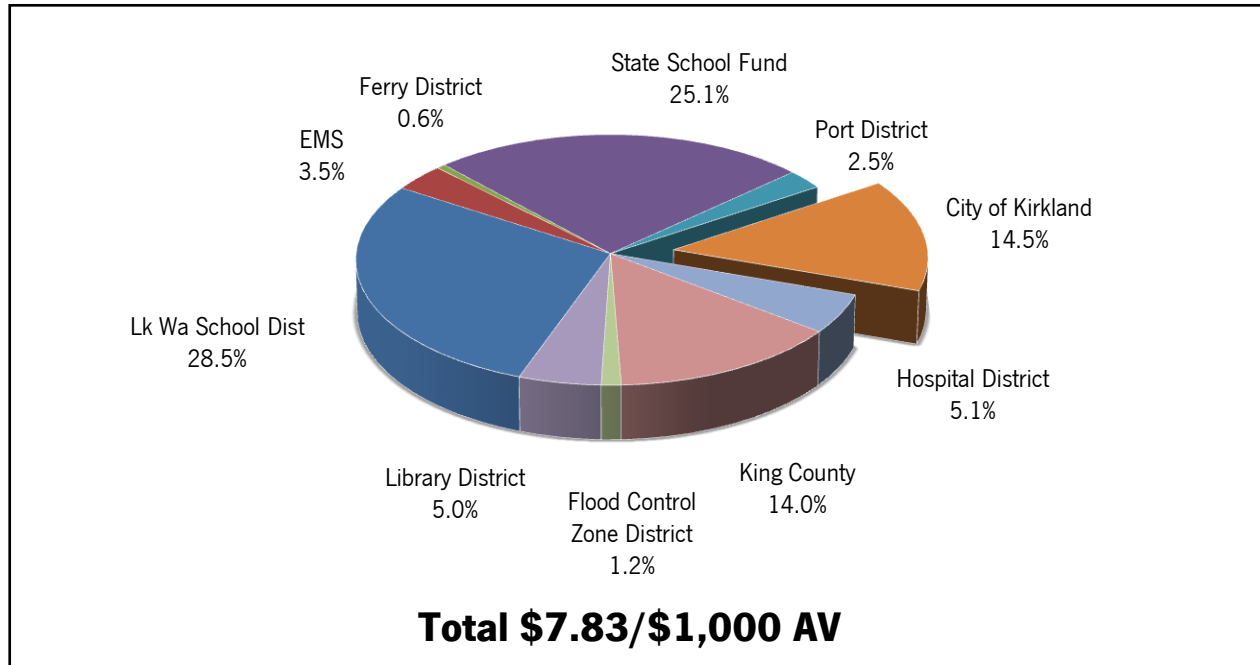
- Not applicable.

Key Assumptions

- Not applicable.

CITY OF KIRKLAND

2009 PROPERTY TAX DISTRIBUTION



The City is limited to an annual increase on its regular property tax levy of the lesser of 1% or the Implicit Price Deflator, plus an allowance for new construction. However, unused levy capacity from prior years that was "banked" for future specified purposes can be utilized. At the end of 2008, the City had a banked capacity balance of \$0.11 million. In addition to using that banked capacity, the Council opted to increase the regular property tax levy by 1% for 2009 and plans a 1% increase in 2010.

The actual impact on an individual's property tax bill is not necessarily the same as the change in the levy. Other factors, such as the assessed valuation of the property, growth in the City's overall assessed valuation, or levy increases (or decreases) of other governments will determine the final tax bill.

Although property taxes represent a major source of funding for City services, the portion of each property owner's total tax bill that goes to the City is relatively small. In 2009, the total property tax rate in Kirkland is \$7.83 per \$1,000 of assessed valuation. Of that total, 14.5%, or \$1.14 per \$1,000 assessed valuation, goes to the City, of which \$0.11 is for voter-approved debt service.

CITY OF KIRKLAND
2009 PROPERTY TAX DISTRIBUTION (FINAL LEVY)

Taxable Assessed Valuation For 2009 Levy		\$13,108,188,338
REGULAR LEVY		
<u>Operating Fund</u>	<u>Levy</u>	<u>Rate per \$1,000 AV</u>
General Fund	\$9,457,846	\$0.72152
Street Operating Fund	\$3,174,166	\$0.24215
Parks Maintenance Fund	\$814,430	\$0.06214
<i>Total 2009 Regular Levy</i>	<i>\$13,446,442</i>	<i>\$1.02581</i>
EXCESS LEVY		
<u>Unlimited General Obligation Bond Issue</u>	<u>Levy</u>	<u>Rate per \$1,000 AV</u>
1993 Unlimited G.O. Refunding (Parks)	\$544,613	\$0.04155
1995 Unlimited G.O. (Public Safety)	\$89,888	\$0.00686
2001 Unlimited G.O. Refunding (Public Safety)	\$185,100	\$0.01412
2003 Unlimited G.O. (Parks)	\$637,385	\$0.04862
<i>Total 2009 Excess Levy</i>	<i>\$1,456,986</i>	<i>\$0.11115</i>
TOTAL LEVY		
	<u>Levy</u>	<u>Rate per \$1,000 AV</u>
<i>Total 2009 Levy</i>	<i>\$14,903,428</i>	<i>\$1.13696</i>

CITY OF KIRKLAND

2009-2010 DISTRIBUTION OF INVESTMENT INCOME

Total Estimated Earnings		\$ 5,650,000
Allocated to Utility Funds		
Water/Sewer	918,100	
Surface Water Management	468,400	
Solid Waste	<u>74,900</u>	
Subtotal to Utility Funds		1,461,400
Allocated to Lodging Tax Fund		16,300
Allocated to Impact Fee Fund		97,400
Allocated to REET Fund		945,400
Allocated to Parks Bond Reserve		37,500
Allocated to Equipment Rental Fund		374,700
Allocated to the Firefighter's Pension Fund		<u>80,000</u>
Net to Allocate		2,637,300
Dedicated Proceeds:		
Capital Improvement Program		1,000,000
Capital Improvement Program - Technology Initiative		600,000
Audit and Fiscal Services		131,183
Councilmanic Debt for Facilities		<u>897,075</u>
Net to Distribute		<u><u>\$ 9,042</u></u>

2009-2010 BUDGETED DISTRIBUTION

<u>Fund</u>	<u>Amount</u>	<u>Fund</u>	<u>Amount</u>
General	\$ 9,042	Cemetery Improvement	\$ -
Lodging Tax	-	Park and Municipal Reserve	-
Street Operating	-	Off Street Parking Reserve	-
Cemetery Operating	-	Tour Dock	-
Parks Maintenance	-	Street Improvement	-
Recreation Revolving	-	General Capital Projects	-
Facilities Maintenance	-	Equipment Rental	-
Contingency	-	Information Technology	-
		Total All Funds	<u><u>\$ 9,042</u></u>



BUDGET FOCUS

Selected schedules and charts focusing on key facts,
issues and processes reflected in the 2009-2010 Budget



FUND BALANCE AND RESERVES

Reserves and fund balance are two important indicators of the City's fiscal health. Reserves represent "savings accounts" that are held to meet unforeseen budgetary needs ("general purpose reserves"). Some specialized reserves are dedicated by purpose and are held until an appropriate expenditure is needed ("special purpose reserves"). Fund balance includes both reserves and working capital. Working capital is needed within each fund to meet its cash flow needs.

The charts following this narrative summarize the changes in fund balance across all funds and the estimated balance in each reserve at the end of 2010. An analysis of the changes in fund balance is included with each section of the budget (i.e. General Government Operating, Water/Sewer Utility, etc.) in addition to the summary provided here. The analysis shows the 2010 delineation between reserved fund balance and working capital. The following narrative highlights the major reserve policy components as they are incorporated in the 2009-2010 Budget.

FUND BALANCE

Each fund begins the year with a beginning fund balance which may be comprised of: capital reserves, operating reserves, and unreserved working capital. As the year progresses the expenditures made from the fund and revenues received will change the fund balance. A minimum amount of fund balance should be maintained in each operating fund to meet cash flow needs and, if needed, as a means of meeting commitments when a revenue shortfall occurs. A reduction in fund balance during the biennium (unless it is planned) can be seen as a sign of fiscal stress – revenues are not adequate to meet expenses. Fund balance in excess of the amount needed for minimum cash flow purposes can be used to fund one-time expenses or to replenish or enhance reserves. Budgeted fund balances recognize all cash resources estimated to be available as of the end of the biennium.

GENERAL PURPOSE RESERVES

General purpose reserves are available to meet a wide variety of contingencies. They are funded by excess general purpose revenues, which have no restrictions on the public purpose for which they are spent. The utility funds have a companion set of reserves distinct from those in the General Government category.

General Operating Reserve

For the City's "Rainy Day" fund, the target is established by fiscal policy at five percent of the operating budget (excluding utility and internal service funds). Each biennium, the target amount will change proportional to the change in the operating budget. To maintain full funding, the increment between five percent of the second year of the prior biennium budget and the second year of the current biennium budget would be added or subtracted utilizing interest income and year-end transfers from the General Fund. It is a reserve to be used for unforeseen revenue losses and other temporary events. If the reserve is utilized by the City Council, the authorization should be accompanied by a plan for replenishing the reserve within a two to three year period.

Revenue Stabilization Reserve

The Revenue Stabilization Reserve was approved by Council in 2003 and was created by segregating a portion of the General Operating Reserve. The purpose of this reserve is to provide an easy mechanism to tap reserves to address temporary revenue shortfalls resulting from temporary circumstances (e.g. economic cycles, weather-related fluctuations in revenue). Council set the target at ten percent of selected General Fund revenue sources which are subject to volatility (e.g. sales tax and utility taxes). The Revenue Stabilization Reserve may be used in its entirety; however, replenishing the reserve will constitute the first priority for use of year-end transfers from the General Fund.

Contingency Fund

The Contingency Fund was established pursuant to RCW 35A.33.145 to “provide monies with which to meet any municipal expense, the necessity or extent of which could not have been foreseen or reasonably evaluated at the time of adopting the annual {biennial} budget.” State law sets the maximum balance in the fund at \$.375 per \$1,000 of assessed valuation. This reserve would be used to address unforeseen expenditures (as opposed to revenue shortfalls addressed by the Revenue Stabilization Reserve). The fund can be replenished through interest earnings up to the maximum balance or through the year-end transfer if needed.

General Capital Contingency

This reserve is available to fund general capital projects when the scope or cost of the project exceeds the budgeted amount. The target established by fiscal policy is ten percent of the funded six-year Capital Improvement Program (CIP) less utility projects. Funding is received from the General Fund year-end transfer and interest income. Use of the General Capital Contingency is secured through a request to Council. Typically, this reserve has covered changes in project scope or unanticipated costs that arose out of the bid process or unavoidable change orders. Council granted limited administrative authority to the City Manager to fund small project overruns (e.g. up to \$100,000 per year each for the general and utility capital reserves with up to \$25,000 for any single project).

Building and Property Reserve

This reserve is used for property purchases, building improvements and other property-related transactions. It has also been used as a general purpose reserve to fund Council-approved unanticipated expenditures.

Council Special Project Reserve

This reserve is available to the City Council to fund special one-time projects that were unforeseen at the time the budget was prepared. When the reserve is used, it is replenished from the General Fund year-end transfer.

SPECIAL PURPOSE RESERVES

Special purpose reserves are dedicated either by Council policy or by state or local laws that govern their use. Following are descriptions of a few of the larger and more important special purpose reserves.

Excise Tax Capital Improvement Reserve

There are two reserves in the Real Estate Excise Tax Capital Improvement Fund – one for the first quarter percent real estate excise tax (REET 1) and one for the second quarter percent real estate excise tax (REET 2). These cash balances must be kept separate due to the dedication of REET 2 to transportation capital projects. The REET 1 reserve is used primarily as a general CIP grant match reserve and/or for significant project scope changes. The target should be reviewed periodically against potential grants.

Equipment Rental Fund

The Equipment Rental Fund is one of three internal service funds. There are two capital reserves maintained in this fund. One relates to the replacement of vehicles and the other is for the replacement of 800 MHz radios. Vehicle replacement rates, based on the estimated useful life, the replacement cost of each vehicle, and the related cash flow requirements are assessed monthly to each user department. The radio replacement reserve was funded previously via the year-end transfer from the General Fund; however, future funding is still to be determined, but may come from radio replacement rates which will be assessed in the year after a radio is replaced.

Information Technology Fund

The Information Technology Fund is the second internal service fund. There are two reserves within this fund. The Personal Computer (PC) replacement reserve in this fund is for the replacement of personal computers. PC replacement rates, based on the estimated useful life and replacement cost of each type of PC, are assessed monthly to each user department. The Technology Major Systems Replacement Reserve was initiated by Council in 2003 by reallocating a portion of the General Capital

Contingency. The reserve will be used to fund projected major system replacements that cannot be covered through the current CIP funding allocations. An initial amount of \$1 million was reallocated from the General Capital Contingency to start the reserve which may be funded in future years by replacement charges to department users.

Facilities Maintenance Fund

The third internal service fund is the Facilities Maintenance Fund which accounts for the costs of maintaining and repairing City buildings. Revenue to the fund is derived primarily from user charges to other funds. Two types of reserves are budgeted in this fund – an operating reserve and a sinking fund reserve. The operating reserve is set at \$550,000 (\$50,000 for each of the City's eleven facilities), and is used to pay for major, unanticipated repairs. It is replenished, if necessary, from the General Fund year-end transfer.

The sinking fund reserve is used to pay for each City facility's twenty-year life cycle costs related to the repair or replacement of major architectural, mechanical, and electrical components. A facilities sinking fund charge is assessed to each operating fund and is in addition to the annual facilities rental charge, which covers the basic annual maintenance costs for each facility.



CITY OF KIRKLAND
CHANGE IN FUND BALANCE (Beginning 2007 to Ending 2010)
SUMMARY OF ALL FUNDS

	General Government		Utility			All Funds
	Operating Funds	Non-Operating Funds	Water/Sewer Utility	Surface Water Utility	Solid Waste Utility	
2007 Actual Beginning Fund Balance	19,045,550	55,414,893	15,439,557	5,602,115	958,713	96,460,828
<i>Reserved</i>	<i>9,750,950</i>	<i>37,503,739</i>	<i>4,939,200</i>	<i>1,542,820</i>	0	<i>53,736,709</i>
<i>Unreserved Working Capital</i>	<i>9,294,600</i>	<i>17,911,154</i>	<i>10,500,357</i>	<i>4,059,295</i>	958,713	<i>42,724,119</i>
Plus: 2007-08 Estimated Revenues	142,643,162	46,647,515	45,216,877	16,464,083	16,636,982	267,608,619
Less: 2007-08 Estimated Expenditures	141,252,959	44,450,306	44,292,563	12,653,360	16,054,938	258,704,126
Less: 2007-08 Amount Avail. for Year-End Transfer	784,178	0	0	0	0	784,178
2007-08 Estimated Ending Fund Balance	19,651,575	57,612,102	16,363,871	9,412,838	1,540,757	104,581,143
Less: Funding for Carryovers to 2009	1,620,864	17,942,353	1,132,654	4,179,379	27,248	24,902,498
Less: Funding for 2009-10 Service Packages	1,690,209	0	0	0	0	1,690,209
2009 Budgeted Beginning Fund Balance	16,333,083	39,669,749	15,231,217	5,233,459	1,513,509	77,981,017
Plus: 2009-10 Budgeted Revenues	155,660,753	46,203,539	53,595,055	14,047,700	17,240,354	286,747,401
Less: 2009-10 Budgeted Expenditures	157,028,245	45,399,658	48,757,440	11,517,299	17,016,136	279,718,778
2010 Budgeted Ending Fund Balance	16,655,800	40,473,630	20,068,832	7,763,860	1,737,727	86,699,849
<i>Reserved</i>	<i>10,730,598</i>	<i>35,009,809</i>	<i>5,644,423</i>	<i>2,314,354</i>	0	<i>53,699,184</i>
<i>Unreserved Working Capital</i>	<i>5,925,202</i>	<i>5,463,821</i>	<i>14,424,409</i>	<i>5,449,506</i>	<i>1,737,727</i>	<i>33,000,665</i>
Change in Fund Balance: Beginning 2007 to Ending 2010	(2,389,750)	(14,941,263)	4,629,275	2,161,745	779,014	(9,760,979)

Notes:

Change in Fund Balance depicts the effects of the current and coming year's financial transactions on available resources. A minimum level of fund balance must be maintained in each fund to assure adequate cash flow. In all cases, fund balance is at or above the minimum level. A negative change in fund balance is not necessarily a reflection of a problem. Rather, it typically reflects the use of accumulated resources for planned expenditures (e.g. use of bond proceeds for capital projects).

Greater detail regarding the change in fund balances can be found in the following sections: General Government Operating Funds, General Government Non-Operating Funds, Water/Sewer Utility Funds, Surface Water Utility Funds and Solid Waste Utility Fund.



CITY OF KIRKLAND
ESTIMATED FUND BALANCE / RESERVES
2009-2010 BUDGET WITH TARGETS

General Purpose Reserves

Fund/Reserve	2010 Est. Ending Bal	Current Target	Restriction Type	Allowable Uses	Source of Funds
<i>Contingency</i>	2,324,515	4,915,571	Legal	Reserve for unforeseen expenditures	Interest income and year-end transfer from General Fund
<i>General Capital Contingency</i>	2,444,561	9,032,430	Policy	Reserve for unforeseen changes in project cost or scope	Year-end transfer from General Fund
<i>Park and Municipal Reserve</i>					
General Operating Reserve (Rainy Day Reserve)	2,712,836	3,567,649	Policy	Reserve for unforeseen revenue losses and other temporary events	Interest income and year-end transfer from General Fund
Revenue Stabilization Reserve	1,082,380	2,188,803	Policy	Revenue Stabilization Reserve to smooth revenue receipts through economic cycles	Initial funding from General Operating Reserve; future funding from General Fund contributions
Building and Property Reserve	2,059,669	N/A	Legal	Reserve for building improvements and property related transactions	Street vacations, property sale proceeds and year-end transfer from General Fund
Council Special Projects	271,960	250,000	Policy	Reserve for unanticipated Council special projects	Year-end transfer from General Fund
Total General Purpose Reserves	10,895,921				

Restricted Fund Balance

Fund/Reserve	2010 Est. Ending Bal	Current Target	Restriction Type	Allowable Uses	Source of Funds
<i>Excise Tax Capital Improvement</i>					
REET 1	8,370,417	1,653,500	Legal	Parks projects, Park debt service, & Transportation projects	1st quarter percent Real Estate Excise Tax (REET 1)
REET 2	8,134,095	8,477,130	Legal	Transportation projects and CIP Transp. grant match	2nd quarter percent Real Estate Excise Tax (REET 2)
<i>Equipment Rental</i>					
Vehicle Reserve	6,421,787	6,421,787	Policy	Vehicle replacement reserve	User charges to other funds
Radio Reserve	36,000	TBD*	Policy	Radio replacement reserve	User charges to other funds
<i>Information Technology</i>					
PC Replacement Reserve	494,373	494,373	Policy	PC equipment replacement reserve	User charges to other funds
Major Systems Replacement Reserve	247,900	TBD*	Policy	Reserve for replacement of major technology systems	Initial funding from General Capital Contingency; future funding from user charges to other funds
<i>Facilities Maintenance</i>					
Operating Reserve	550,000	550,000	Policy	Reserve for maintenance and repair of City buildings	Year-end transfer from General Fund
Sinking Fund	1,051,963	1,051,963	Policy	20 year Facilities Life Cycle costs	User charges to other funds
<i>Impact Fees</i>					
Roads	3,429,578	N/A	Legal	Transportation capacity projects	Road impact fees and interest income
Parks	237,809	N/A	Legal	Park capacity projects	Park impact fees and interest income
<i>Bond Reserve</i>	558,981	N/A	Legal	Park projects identified with Park bond issue	Park bond funds reserved for future park projects
<i>Cemetery Improvement</i>	523,405	N/A	Legal	Reserve for cemetery improvements and debt service	75% of cemetery lot sales

*To Be Determined (TBD) - the targets for these reserves are under review.

CITY OF KIRKLAND
ESTIMATED FUND BALANCE / RESERVES
2009-2010 BUDGET WITH TARGETS

Restricted Fund Balance (Continued)

Fund/Reserve	2010 Est. Ending Bal	Current Target	Restriction Type	Allowable Uses	Source of Funds
<i>Off-Street Parking</i>	204,410	N/A	Legal	Reserve for parking improvements in the Central Business Dist.	Fees collected in lieu of parking
<i>Tour Dock</i>	70,175	N/A	Legal	Dock repairs	Tour dock fees
<i>Street Improvement</i>	994,576	N/A	Legal	Street improvements	Gas tax, sales tax and transfers from the surface water utility
<i>Firefighter's Pension</i>					
Pension Benefits	535,000	535,000	Legal	Pre-LEOFF 1 firefighters' pension benefits	Fire insurance premium tax
Long-Term Care Benefits	1,056,986	568,000	Legal	Pre-LEOFF 1 firefighters' long-term care benefits	Fire insurance premium tax
<i>Park and Municipal Reserve</i>					
Litigation Reserve	51,329	50,000	Policy	Anticipated litigation expense for outside counsel	Year-end transfer from General Fund
Labor Relations Reserve	67,183	N/A	Policy	Anticipated labor negotiation expenses	Year-end transfer from General Fund
Police Equipment Reserve	48,093	N/A	Legal	Narcotics investigations	Seized property
LEOFF 1 Police Reserve	612,029	N/A	Policy	Police long-term care benefits	Year-end transfer from General Fund
Facilities Expansion Reserve	800,000	N/A	Policy	Public Safety building	Interest income and year-end transfer from General Fund
Development Services Reserve	457,331	N/A	Policy	Revenue and staffing stabilization through economic cycles	Development services revenues
Tree Ordinance	28,980	N/A	Legal	Replacement trees program	Tree planting fee-in-lieu and tree removal fines
Donation Accounts	161,257	N/A	Legal	Purpose donation was given	Donations
Revolving Accounts	86,175	N/A	Policy	Purpose which the fee or reimbursement was collected	Fees and reimbursements
Total Restricted Fund Balance	35,229,832				

Water/Sewer Utility

Fund/Reserve	2010 Est. Ending Bal	Current Target	Restriction Type	Allowable Uses	Source of Funds
<i>Operating Fund</i>					
W/S General Operating Reserve	1,799,424	1,799,424	Legal	Rate stabilization reserve	Utility rates
<i>Non-Operating Funds</i>					
Debt Service Reserve	826,759	826,759	Legal	Reserve for debt service	Utility rates
Water/Sewer CIP Contingency	3,018,240	3,018,240	Legal	Reserve for unanticipated changes in Water/Sewer CIP project cost or scope	Available cash transfers and connection fees
Construction Reserve	9,444,066	N/A	Policy	Utility capital projects	Connection fees and interest
Total Water/Sewer Utility	15,088,489				

CITY OF KIRKLAND
ESTIMATED FUND BALANCE / RESERVES
2009-2010 BUDGET WITH TARGETS

Surface Water Utility

Fund/Reserve	2010 Est. Ending Bal	Current Target	Restriction Type	Allowable Uses	Source of Funds
<i>Operating Fund</i>					
Surface Water General Operating Reserve	394,485	394,485	Legal	Available fund balance for operating reserve	Surface Water fees
<i>Non-Operating Funds</i>					
Surface Water CIP Contingency	617,690	617,690	Legal	Reserve for unanticipated changes in Surface Water CIP project cost or scope	Available cash transfers
Surface Water Capital Reserve Transportation Project Related	1,302,179	N/A	Policy	Surface Water capital projects	Interest income & depreciation transfers
Surface Water Capital Reserve Surface Water Project Related	3,186,434	N/A	Policy	Surface Water capital projects	Interest income & depreciation transfers
Total Surface Water Utility	5,500,788				
TOTAL ALL FUNDS	66,715,030				

CITY OF KIRKLAND

POSITION SUMMARY

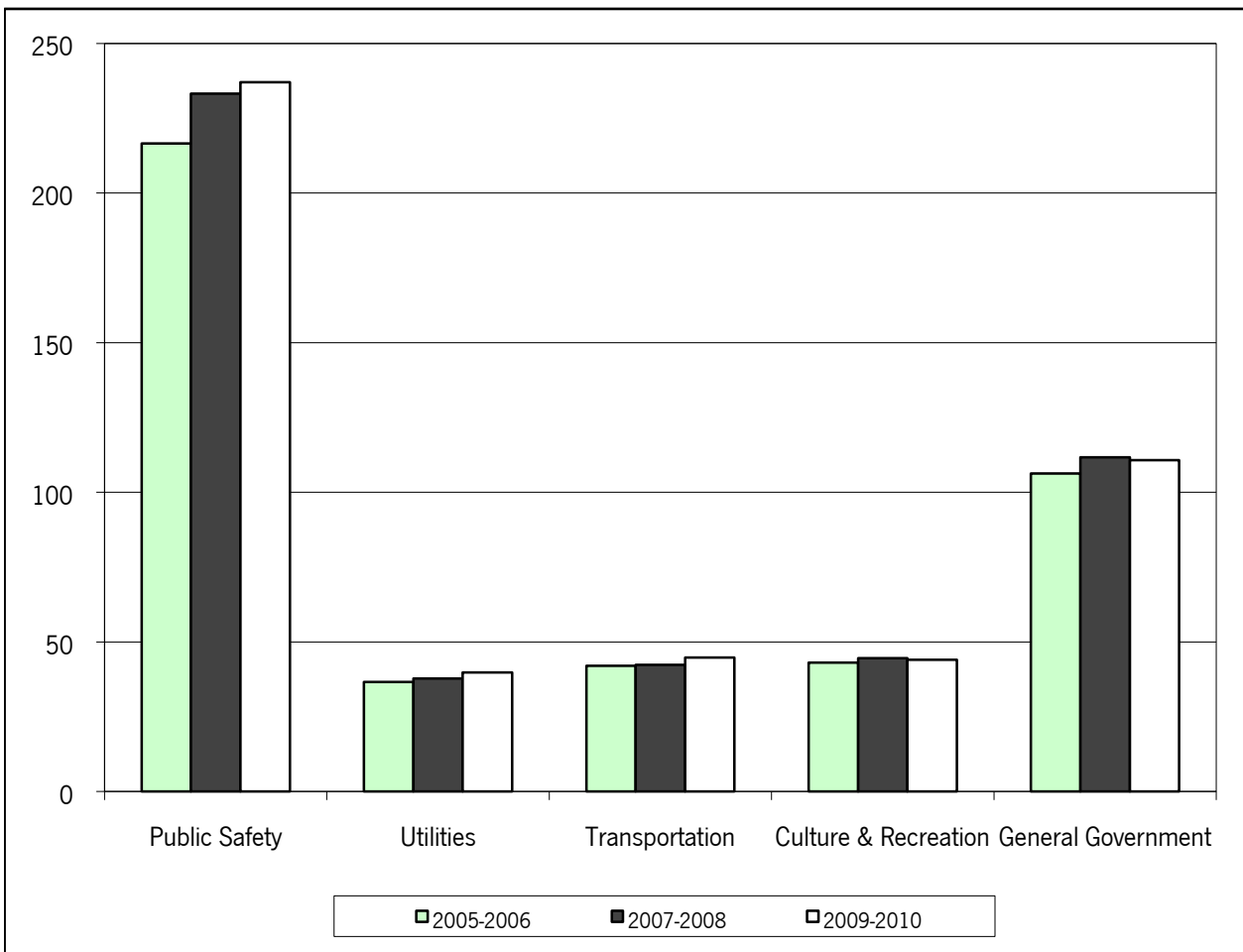
By Fund

Fund/Department	2005-2006	2007-2008	2009-2010
<i>General Fund:</i>			
City Council	7.00	7.00	7.00
City Manager's Office	19.48	21.67	21.54
Human Resources	7.10	7.10	7.10
City Attorney's Office	4.00	4.00	4.00
Parks and Community Services	32.28	33.78	36.53
Public Works	26.65	26.95	27.05
Finance and Administration	28.45	30.50	29.05
Planning & Community Development	22.56	23.56	22.06
Police	105.50	110.50	110.50
Fire and Building	99.53	109.53	113.28
Total General Fund	352.55	374.59	378.11
<i>Other General Gov't Operating Funds:</i>			
Lodging Tax Fund	0.11	0.90	0.90
Street Operating	15.40	15.40	17.70
Parks Maintenance	7.50	7.50	7.50
Recreation Revolving	3.25	3.25	0.00
Facilities Maintenance	5.45	5.45	5.95
Equipment Rental	5.50	6.00	6.40
Information Technology	18.25	18.75	20.00
Total Other General Gov't Operating Funds	55.46	57.25	58.45
<i>Utility Funds:</i>			
Water/Sewer Operating	20.31	20.71	20.86
Surface Water Management	15.19	15.39	17.24
Solid Waste	1.05	1.65	1.70
Total Utility Funds	36.55	37.75	39.80
Total Positions	444.56	469.59	476.36

CITY OF KIRKLAND POSITION SUMMARY

By Program

Program	2005-2006	2007-2008	2009-2010
Public Safety	216.62	233.27	237.02
Utilities	36.55	37.75	39.80
Transportation	42.05	42.35	44.75
Culture & Recreation	43.03	44.53	44.03
General Government	106.31	111.69	110.76
Total Positions	444.56	469.59	476.36



CITY OF KIRKLAND

PAYMENTS TO OTHER AGENCIES

Approximately \$27.2 million, or 10.8 percent, of the City's total 2009-2010 budget for general government operations, water/sewer operations, surface water management operations, and solid waste operations is paid to other governmental agencies or outside vendors. The City either absorbs annual increases in payments to other agencies through growth in general revenue sources (e.g. Air Pollution Control) or passes them along to users through charges for service (e.g. Sewage Treatment and Water Purchases).

Service	Agency	2007-2008 Budget	2009-2010 Budget
Sewage Treatment ¹	King County	9,615,400	11,515,605
Alcohol Treatment ¹	King County	21,562	24,501
Air Pollution Control ¹	King County	56,261	71,841
Prisoner Expense ¹	King County, Yakima County, & Cities of Enumclaw and Issaquah	1,017,591	1,844,324
Marine Patrol	King County	78,000	78,000
Hazardous Waste Fee ¹	King County	459,200	472,000
Solid Waste "Tipping" Fees ¹	King County	4,038,319	5,522,101
Election Costs ¹	King County	247,245	202,000
Subtotal King County & Other Cities		15,533,578	19,730,372
Water Purchase ¹	Cascade Water Alliance	5,743,564	7,393,188
State Purchasing Contract ¹	State of Washington	4,000	6,500
Financial Audits ¹	State of Washington	103,000	106,760
Subtotal Other Agencies		5,850,564	7,506,448
Total Payments to Other Agencies		21,384,142	27,236,820
Percent Increase (Decrease) from Prior Biennium			27.37%

¹ These services are mandatory contractual obligations with other governments. The rates are established by the contractor agency.

CITY OF KIRKLAND

HUMAN SERVICES FUNDING

Funding for Human Services is incorporated into a variety of operating and non-operating budgets. Housing & Community Development Block Grant funding is allocated through the King County Cities Consortium program. **It is important to note that a number of changes in program structure between 2007-2008 and 2009-2010 make direct comparison difficult.** The following summary provides an overview of Human Services funding recommended for 2009-2010.

Program/Funding Source	2007-2008 Budget	2009-2010 Budget
Human Services Program (includes per capita allocation)	1,019,906	1,061,181
Human Services Roundtable and Other Programs	42,200	4,450
Human Services Coordination	144,686	168,730
Senior Center Operations	913,716	1,317,381
King County Alcohol Treatment Programs	21,562	24,501
A Regional Coalition for Housing (ARCH)–Operations ^{1,2}	490,000	554,525
Community Youth Services Program/Teen Center	836,010	850,613
Teen Activity Grants	20,000	17,000
Domestic Violence Programs	531,333	577,959
Police School Resource Program	203,470	207,576
Senior Discounts for Utility and Garbage Services	73,629	70,842
Kirkland Cares (assistance with utility bills from utility customer donations)	10,000	10,000
Specialized Recreation Program	20,404	14,408
Recreation Class Discounts	2,000	2,000
Hopelink Rent Subsidy ³	24,000	0
Total Human Services Funding	4,352,916	4,881,166

TOTAL SPENDING PER CAPITA 2007-2008: \$94.47

TOTAL SPENDING PER CAPITA 2009-2010: \$98.73

¹ The ARCH funding for 2007-2008 reflects the base budget amount of \$108,000 and one-time service package funding of \$166,000 for 2007 and \$216,000 for 2008.

² The ARCH funding for 2009-2010 reflects the base budget amount of \$122,525 and one-time service package funding of \$216,000 for 2009 and \$216,000 for 2010.

³ Hopelink relocated to a facility not owned by the City in 2007.

CITY OF KIRKLAND

SUMMARY OF LEGAL SERVICES

General legal counsel is provided by the in-house City Attorney's Office. By contract, a special legal counsel provides legal advice on selected land use and other matters to the City Council. Prosecution and public defender services are provided by outside attorneys through contracts with the City. In certain specialized matters, the City is represented by other outside counsel. The significant increase in the Litigation Reserve budget for 2009-10 reflects setting aside funds for outside counsel in the event they are needed to resolve a potential legal matter.

Legal Service	Budgeted Fund/Department	2007-2007 Budget	2009-2010 Budget	Percent Change
<i>General Legal Services</i>	General Fund/City Attorney	1,323,445	1,310,201	-1.00%
<i>Litigation Reserve</i>	Non-Operating Funds (Outside Counsel for Litigation)	100,000	450,000	350.00%
Subtotal General Legal Services and Litigation		1,423,445	1,760,201	23.66%
<i>Public Safety Legal Services:</i>				
Prosecution	General Fund/City Attorney	366,000	384,888	5.16%
Public Defender	General Fund/City Attorney	260,000	278,789	7.23%
Subtotal Public Safety Legal Services		626,000	663,677	6.02%
Total All Legal Services		2,049,445	2,423,878	18.27%

CAPITAL IMPROVEMENT PROGRAM (CIP)

CIP POLICIES AND PROCESS

The City will establish and implement a Comprehensive Six-Year Capital Improvement Program that will be prepared and formally adopted by the Council biennially during an even-numbered year. In the “off” years, however, the CIP can be modified as needed by Council based on changing priorities or new funding source opportunities.

A capital improvement is defined as the construction of new facilities; the expansion, large scale renovation, or replacement of existing facilities; the acquisition of land; or the purchase of major pieces of equipment, including major replacements funded by the Equipment Rental Fund or those that are associated with newly-acquired facilities.

A capital improvement must meet all of the following criteria:

- It is an expenditure that can be classified as a fixed asset.
- It has an estimated cost of \$50,000 or more (with the exception of land).
- It has a useful life of ten years or more, with the exception of certain equipment that may have a shorter life span.

PROCESS FOR DEVELOPING THE CIP

All capital improvement projects are subject to a biennial review and revision based upon community needs, priorities, and the availability of funding. The process reflects the need to periodically re-assess and re-prioritize the City’s capital needs and includes the following steps:

- Each department is responsible for planning and prioritizing all capital project proposals within their scope of operational responsibility. Departments are provided broad funding guidelines and prepare descriptions of new projects to be considered, revisions to existing

projects, and a progress report for current year projects.

- The City Manager reviews each department's requests and a recommended Preliminary Capital Improvement Program is prepared for consideration by the City Council.
- The City Council holds a public hearing to gather citizen comment and revises and/or adopts the CIP recommendation.
- The capital improvement budget for the first and second year of the adopted CIP are formally adopted by the City Council as part of the biennial budget process.
- During the first year of the adopted CIP (an odd-numbered year) an update is prepared by the departments and adopted by the Council to recognize any project modifications resulting from new funding opportunities, changing priorities and project timing changes. The second year of the revised capital improvement budget is incorporated into and adopted with the mid-biennial budget update.
- The City Manager and City departments implement the first two years of the CIP, providing periodic progress reports and updates to the City Council.

FUNDING

There are four major categories of funding for CIP projects: current revenue, reserves, debt and external sources.

Current Revenue is the estimate of annual new revenue that will be received from existing, authorized revenue sources. Certain revenue streams historically have been dedicated to funding the CIP either through legal mandate or Council policy. The funded projects in the CIP acknowledge those funding sources and also utilize reserves to some extent.

Legal restrictions apply to some revenue sources. Gas tax is dedicated to transportation purposes. Utility connection charges and utility rates are restricted to utility projects. The first quarter percent real estate excise tax is restricted to capital purposes, but can be utilized for almost any category of capital projects (except computer equipment). The second quarter percent real estate excise tax is designated by Council policy for transportation capital improvements. Road impact fees are dedicated to transportation capital improvements that provide new capacity. Park impact fees are likewise dedicated to park purposes.

Reserves are cash resources that accumulate from prior years and are derived from a variety of revenue sources. The CIP utilizes reserves to a limited extent to fund projects. Although use of reserves is always an option to supplement annual revenue streams, it is a one-time solution using a finite resource. Reserves should be used to address short term or time-limited funding deficits.

Debt represents a commitment to repay over a long period of time. Debt can take a number of forms including voter-approved general obligation bonds,

councilmanic (non-voted) bonds, and utility revenue bonds. The City also has been awarded low interest loans from the State's Public Works Trust Fund that have an interest rate of one to three percent, depending on the amount of the City's matching funds.

External Sources are primarily grants, but could include contributions from the private sector or other governmental agencies.

Some capital projects generate future operating costs that are considered when the Council reviews the CIP. Operating costs are listed in the detailed project summaries of the CIP. New operating costs for 2009-2010 that are related to completed CIP projects are highlighted in each department's summary. Projects approved for 2009-2010 are included in the General Government and Utilities non-operating sections of this document. Estimated operating impacts are also included in the summary of 2009-2010 projects.

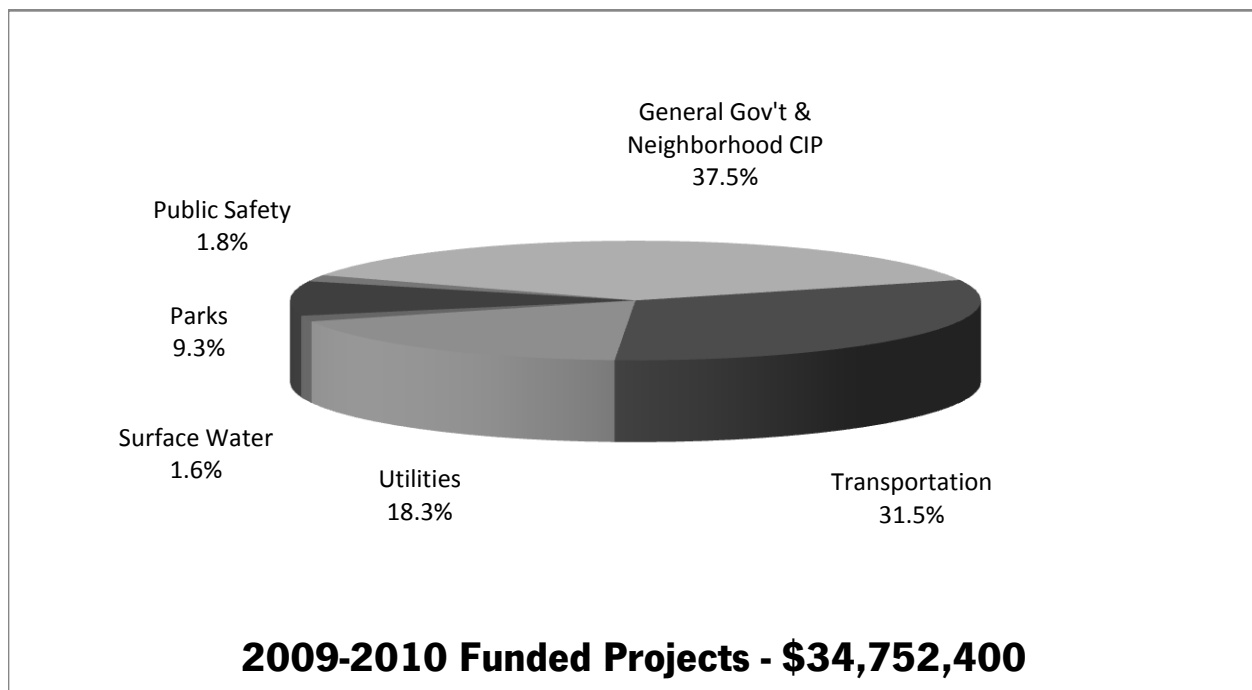
The following table summarizes the annual funding sources for the project categories as presented in the Final 2009-2014 CIP:

Average Annual Current Revenue (in 1,000s of dollars)								
Revenue Source	Transportation	Surface Water/ Transp.	Surface Water	Utilities	Parks	Public Safety	General Gov't*	Total
Gas Tax**	550							550
Sales Tax	270						258	528
Utility Connection Charges***				865				865
Utility Rates***		950	1,029	2,291			150	4,420
Real Estate Excise Tax 1**	595				1,190			1,785
Real Estate Excise Tax 2**	1,786							1,786
Impact Fees**	2,397							2,397
Interest Income						250	550	800
Total	5,598	950	1,029	3,156	1,190	250	958	13,131
* General Government section includes the Technology and Facilities categories and the Neighborhood Connection program.								
** Indicates revenue sources that are legally restricted to capital purposes.								
*** For utility capital purposes only; utility funding in General Government category is for utility portion of GIS project.								

CITY OF KIRKLAND

CAPITAL IMPROVEMENT PROGRAM

2009-2010 Expenditures



The City of Kirkland Capital Improvement Program (CIP) is a six-year plan that addresses construction, repair, maintenance, and acquisition of major capital facilities and equipment. It reflects the collective efforts of the City to plan for capital improvements for transportation, utilities, parks, buildings, and equipment. The goals of this planning process are to protect the City's investment in infrastructure and to build new capacity to meet the needs of a growing community. The City's CIP is organized into six project areas:

TRANSPORTATION includes improvements to streets, sidewalks, intersections, and non-motorized facilities.

SURFACE WATER MANAGEMENT includes improvements to the City's surface water management system.

UTILITIES includes maintenance, replacement, and new capacity improvements for the City's water and sanitary sewer systems.

PARKS includes projects for the acquisition, development, repair, and replacement of park facilities and equipment and improvements to the Kirkland Cemetery.

PUBLIC SAFETY includes buildings and equipment to support the City's police, fire, and emergency management functions.

GENERAL GOVERNMENT includes improvements that are not specific to the other areas and benefit all (or several) functions. This section also includes the Neighborhood Connection CIP program which includes small capital projects requested by Kirkland citizens to meet a specific need in their neighborhood.

